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Democrats Join in Petition to White House on Social Security

While Gore Turns up the Rhetoric, Five Senate Democrats Seek Social Security Flexibility

Two ships passed in the night recently. One carried Senate Democrats on a mission of mercy to plead the White House not to force their constituents employed by state and local governments into the Social Security system. The other ship carried Vice President Gore under the skull and crossbones of demagoguery. His mission: continued attack on Republicans who dare even to talk seriously about Social Security reform. What makes this ironic is that what the Senate Democrats request of the President *is precisely* what the Vice President is attacking Republicans for suggesting — that is, allowing individuals to hold their government retirement funds in private accounts.

Bipartisan Letter to White House

On April 22, 1999, 12 Senators from both parties signed a letter to President Clinton asking that five million of their constituents — those employed by state and local governments and covered by other pension plans — continue to be excluded from Social Security. Five of 12 are of the President's party — Senators Feinstein (D-CA), Boxer (D-CA), Dodd (D-CT), Durbin (D-IL), and Kennedy (D-MA). Their concern is that the White House, in putting together a Social Security reform proposal, might follow the recommendations of the President's Advisory Council on Social Security to force these employees into the Social Security system.

As the Senators' plea accurately points out, these employees were originally not included under the 1935 Social Security Act, with one of the primary reasons being that many state and local employees already were protected by public pension plans. The law change in 1983 permitted those specific groups of employees to remain exempt. According to the 12 petitioners, that was a wise decision indeed.

Wanted: More Flexibility and Higher Returns on Investments

The arguments advanced by the 12 Senators give great insight into Social Security and its need for reform. What is most telling is their warning of the adverse impact on the employees themselves: they would lose out on both flexibility and higher rates of return.

First, let's look at the Senators' concern over the loss of flexibility to state and local employees if brought into Social Security rather than being left in their current local plans: "Seventy-nine percent of police and firefighter disabilities are partial disabilities that do not prohibit the individual from taking a less physically-demanding job. Public pensions typically award partial benefits to the partially disabled. Social Security provides benefits only when the individual becomes totally unemployable. Furthermore, the nature of police and firefighter work often requires early retirement, which under Social Security is not available until age 62."

Second, the Senators note that their constituents "will receive higher retirement benefits from their current public pensions than they would under Social Security." In fact, it would be hard not to do so. City of San Diego employees, for example, are required to contribute at least 3 percent of their salaries (and may contribute up to 7.5 percent) to a defined-contribution plan that invests in four mutual funds as well as in lower-risk securities. Some 85 percent of the city's employees choose to contribute more than the minimum.

Let's take a look at this real-life example of return rates, and then compare that with returns under Social Security. Assuming that an employee chooses to contribute just 3.1 percent (which amounts to exactly a quarter of the current 12.4-percent Social Security payroll tax) of her constant $32,000 salary to the defined-contribution plan, funds which then are put into a stock fund that simply matches the average 7-percent real rate of growth in the stock market over this century, she will have accumulated $293,385 in constant dollars after 45 years. Not bad. Compare that with Social Security: the projected rate of return for a low-income worker born in 1973 is just 2.57 percent on her payroll tax dollars, and it will take 24.2 years for her to recover all this money when she retires at age 67 — that is, she'll be 91 when she breaks even. Because of the redistributive nature of the current Social Security system, the figures for a high-earner are even worse: a 0.15-percent rate of return and more than 150 years to recover her money.

The Administration's Response: Attack

Meanwhile, the Vice President attacked Republicans who have even dared speak of serious Social Security reform for "putting politics first" and charged that Republicans were "talking about privatizing this and privatizing that." Yet, the choice of privately-held accounts — which Gore seeks to demagogue as "privatizing" — are no more than what San Diego city employees now have and what five Democratic Senators (including both from California) petitioned the White House to protect.

The 12 Senators are right in speaking up for their state and local workers. Why should they have to switch from a system that take less from their paychecks (just 3 percent in the case of San Diego city employees versus 12.4 percent under Social Security), returns more at retirement, and provides more flexibility at all points in between? Of course, it begs the larger question: Shouldn't all Americans be allowed such a deal? It is obviously not a question that the White House and the Vice President want asked. Let alone answered.

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